



Minnesota Housing Mortgage Loans Step Up Program Procedural Manual

June 30, 2017

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, creed, national origin, sex, religion, marital status, status with regard to public assistance, disability, familial status, or sexual or affectional orientation in the provision of services.

An equal opportunity employer.

This information will be made available in alternative format upon request.

Table of Contents

Introduction.....	1
Mission Statement	1
Background	1
Procedural Manual	1
Step Up Program.....	1
Monthly Payment Loan Program	2
The Master Servicer	2
 Chapter 1 - Lender Responsibilities and Warranties	3
1.01 Procedural Manual	3
1.02 Evidence of Misconduct Referred to Attorney General	3
1.03 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number	3
1.04 Unauthorized Compensation	4
1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements	4
1.06 Termination of Lender Participation	4
1.07 Covenants.....	5
1.08 Lender Compensation	6
1.09 Annual Renewal Requirements and Fees.....	6
 Chapter 2 – Master Servicer Requirements.....	7
 Chapter 3 - Borrower Eligibility.....	8
3.01 Borrower	8
3.02 Borrower Age	8
3.03 Co-Signers	8
3.04 Unauthorized Compensation	8
3.05 Principal Residence/Occupancy Requirement	8
3.06 Homebuyer Education	8
3.07 Credit Score and Debt-to-Income (DTI) Ratios	9
3.08 Program Income Limits	10
3.09 Loans to Employees and Affiliated Parties	10
 Chapter 4 - Property Eligibility.....	11
4.01 Eligible Properties	11
4.02 Loan and Purchase Price Limits	11
4.03 New Construction Requirements	11

Chapter 5 – Loan Eligibility	13
5.01 Eligible Loans.....	13
5.02 Interest Rate/Amortization Requirements	14
5.03 Mortgage Term	14
5.04 Private Mortgage Insurance Coverage Requirements	14
5.05 Private Mortgage Insurance Companies – Minimum Requirements	14
5.06 Settlement/Closing Costs	14
5.07 Gifts	15
5.08 Non-Minnesota Housing Secondary Financing	15
5.09 Non-Complying Loans	15
Chapter 6 – Downpayment and Closing Cost Loans	16
6.01 Monthly Payment Loan Requirements	16
6.02 Monthly Payment Loan Borrower Eligibility	16
6.03 Monthly Payment Loan Lender Warranties	17
6.04 Subordination Policy	17
Chapter 7 – Commitment/Disbursement	18
Chapter 8 – Documentation Requirements	19
8.01 Loan Processing and Closing	19
8.02 Minnesota Housing Documentation/Delivery Requirements.....	20
8.03 Records Retention.....	20
Chapter 9 – Servicing.....	21
9.01 Servicing	21
9.02 Lender Servicing Responsibilities	21
9.03 Hardship Policy.....	21
Appendix A: Definitions	22
Appendix B: Forms List	23

Introduction

Mission Statement

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

Background

The Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers three mortgage loan programs to serve low- and moderate-income homebuyers:

- The Step Up Program for non-first-time homebuyers for home purchase or refinance, with access to a downpayment and closing cost loans.
- The Start Up Program for First-Time Homebuyers, a first mortgage loan program with access to downpayment and closing cost loans.
- The Mortgage Credit Certificate (with First Mortgage) for First-Time Homebuyers that includes a first mortgage loan, a Mortgage Credit Certificate (MCC), and access to a downpayment and closing cost loan.

Lenders originate and close loans under their individual underwriting and closing procedures. A Master Servicer securitizes and purchases closed loans originated by the Lender under prescribed program requirements. The Lender is advised that underlying eligible product guidelines and Master Servicer requirements apply which may be more restrictive than the Minnesota Housing guidelines.

Minnesota Housing also provides financial assistance to potential Borrowers who need downpayment and closing cost loans to make homeownership possible with the Monthly Payment Loan.

Procedural Manual

This Procedural Manual sets forth for Lenders the terms and conditions under which the Master Servicer will purchase mortgages under Minnesota Housing’s Step Up Program and Monthly Payment Loan option. Step Up is not subject to tax-exempt bond regulations so it is not restricted to first-time homebuyers.

Step Up Program

Step Up offers low-interest home mortgage and refinance loans throughout Minnesota to low- and moderate-income Borrowers through local participating Lenders.

Monthly Payment Loan Program

The amortizing Monthly Payment Loan provides a loan with an interest rate equal to the first mortgage to help Borrowers with downpayment and closing costs. See Chapter 6 for Monthly Payment guidelines. The Monthly Payment Loan is the only Minnesota Housing downpayment option available with Step Up.

The Master Servicer

U.S. Bank Home Mortgage, HFA Division, is the Master Servicer for Minnesota Housing and as such purchases Step Up Loans and issues mortgage-backed securities for the Agency. In order to be eligible for purchase and in addition to the guidelines set forth in this Procedural Manual, **U.S. Bank Home Mortgage, HFA Division, requires lenders to satisfy all the requirements** it has published in [All Regs.](#)

Chapter 1 - Lender Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing Single Family Mortgage Backed Securities Programs, as amended or supplemented (referred to as the Participation Agreement) for Minnesota Housing mortgage programs executed between the Lender, the Master Servicer, and Minnesota Housing. It is incorporated into the Participation Agreement by reference and is a part of it as fully as if in the Participation Agreement at length.

Minnesota Housing reserves the right to:

- Change the program interest rate(s) at any time and at its sole discretion
- Change the commitment policy at any time
- Alter or waive any of the requirements
- Impose other or additional requirements
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated
- Grant waivers, alterations, or make revisions at its sole discretion

1.02 Evidence of Misconduct Referred to Attorney General

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, a Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower or others, the Lender will promptly report the discovery to Minnesota Housing and the Master Servicer.
- Minnesota Housing, or the Master Servicer, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender or the Borrower. This includes repayment of loan funds, together with all applicable administrative costs and other fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs, or other expenses incurred by Minnesota Housing in connection with the loan or its recovery.

1.03 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number

The Minnesota Revenue Recapture Act (Minnesota Statutes, Sections 270A.01 to 270A.12, as amended) allows the disclosure of the Borrower's Social Security Number or Minnesota Tax

Identification Number to the Minnesota Department of Revenue. This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower to Minnesota Housing.

1.04 Unauthorized Compensation

The Lender may receive fees approved in this Procedural Manual. However, the Lender may not receive or demand from the realtor, builder, property seller, or Borrower:

- Kickbacks
- Commissions
- Other compensation

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by the Master Servicer. A loan file may be requested to be forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by the Master Servicer.

Audited loans are reviewed for:

- Minnesota Housing program and policy compliance
- Fraud or misrepresentation on the part of any party involved in the transaction
- Trends or other indicators that may have an impact on the success of the Borrower and programs

1.06 Termination of Lender Participation

Minnesota Housing may terminate the participation of any Lender under the programs at any time and may preclude the Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual
- The Participation Agreement
- The Master Servicer's Lender Guide
- The Federal Fair Housing Law or the Equal Credit Opportunity Act
- Any federal or state laws or acts that protect the Borrower's rights with regard to obtaining financing for homeownership
- Other applicable state and federal laws, rules, and regulations

Upon termination of a Lender's contract the Master Servicer will continue to purchase eligible loans for which a commitment was issued, until the commitment expiration date.

- Minnesota Housing will not refund participation fees to the Lender.
- Minnesota Housing may, at its option, impose remedies other than termination of the contract for the Lender's nonperformance.
- The Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender is at Minnesota Housing's or the Master Servicer's sole discretion.

1.07 Covenants

The Lender agrees to follow all applicable federal, state, and local laws, ordinances, regulations, and orders, including but not limited to the following as then in effect (and any applicable rules, regulations, and orders):

- Ability-to-repay and Qualified Mortgage (QM)
- Americans with Disabilities Act
- Anti Predatory Lending Act
- Anti-Money Laundering and Office of Foreign Assets Control Policy
- Bank Secrecy Act
- CFPB Unfair, Deceptive, or Abusive Acts or Practices Rules
- Data Privacy - Minnesota Statutes Chapter 13 and Section 462A.065
- Dodd-Frank Wall Street Reform and Consumer Protection Act
- Equal Credit Opportunity Act
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62
- Fair and Accurate Credit Transactions Act
- Fair Credit Reporting Act
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968)
- Home Mortgage Disclosure Act
- Home Ownership and Equity Protection Act (HOEPA)
- HUD Discriminatory Effects Regulation/Disparate Impact Regulation
- Internal Revenue Code of 1986, Section 6050H
- Loan Officer Compensation
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A
- Mortgage Disclosure Improvement Act (MDIA)

- National Flood Insurance Act
- Real Estate Settlement Procedures Act of 1974
- Section 527 of the National Housing Act
- Title VI of the Civil Rights Act of 1964
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974
- Truth In Lending Act
- USA Patriot Act

In addition to the above-listed covenants, the Lender will have examined:

- The person who confirms on Minnesota Housing's loan commitment system, the Lender Representations and Warranties on behalf of the Lender, has the authority to legally bind the Lender and is fully conversant with:
 - The Master Servicer's requirements as published in [All Regs](#)
 - The Minnesota Housing program requirements
 - The underlying loan product and insurer/guarantor requirements
- The Lender is in compliance with all terms, conditions and requirements of:
 - The Participation Agreement
 - This Procedural Manual
 - The Master Servicer's Lender Guide unless those terms, conditions, and requirements are specifically waived by Minnesota Housing or the Master Servicer, as applicable, in writing.

1.08 Lender Compensation

The Lender is compensated for each loan purchased by the Master Servicer as follows:

- The origination fee collected from the Borrower in accordance with RESPA
- The [service release premium](#) paid by the Master Servicer in an amount established by Minnesota Housing and posted on the Minnesota Housing website.

1.09 Annual Renewal Requirements and Fees

- All Lenders must meet the minimum loan volume requirements as specified by Minnesota Housing or by the Master Servicer, whichever is greater.
- The Lender must be approved by both Minnesota Housing and the Master Servicer to originate Minnesota Housing loans.

Chapter 2 – Master Servicer Requirements

Minnesota Housing's Master Servicer, **U.S. Bank Home Mortgage, HFA Division**, has **requirements** that may be more restrictive than Minnesota Housing requirements and underlying product guidelines. Minnesota Housing highlights in this procedural manual only certain **U.S. Bank Home Mortgage, HFA Division, requirements** that impose more stringent guidelines on Minnesota Housing's MCC policies. Lenders must review and comply with all of **U.S. Bank Home Mortgage, HFA Division, requirements** included in [All Regs.](#)

The **U.S. Bank Home Mortgage, HFA Division, requirements** lenders must review in tandem with Minnesota Housing's policies include but are not necessarily limited to:

- [Condos](#)
- [Credit Score Requirement](#)
- [Debt-to-income \(DTI\) Requirement](#)

Chapter 3 - Borrower Eligibility

3.01 Borrower

One individual or multiple individuals are eligible to be a Borrower only if the individual(s) meet the requirements of this Procedural Manual.

3.02 Borrower Age

The Borrower(s) must be 18 years of age or older or be declared emancipated by a court having jurisdiction.

3.03 Co-Signers

Co-Signers are permitted on Step Up loans. Co-Signers sign the Step Up loan note and the downpayment assistance loan note, if applicable. Co-Signers are not vested in title to the property and may, or may not, reside in the subject property.

3.04 Unauthorized Compensation

The Borrower(s) may not receive kickbacks, rebates, discounts, or compensation from any subcontractor, realtor, or property seller.

3.05 Principal Residence/Occupancy Requirement

At a minimum, one borrower must intend to occupy the financed dwelling as a Principle Residence.

3.06 Homebuyer Education

Homebuyer Education is required if all Borrowers are first-time homebuyers and securing Minnesota Housing financing under the following:

- [Fannie Mae HFA Preferred™](#) (Conventional)
- [Fannie Mae HFA Preferred Risk Sharing™](#) (Conventional)
- [Freddie Mac HFA AdvantageSM](#) (Conventional)
- Funds for downpayment or closing costs through the Monthly Payment Loan

Approved Homebuyer Education:

- Home Stretch
- Pathways Home: A Native Homeownership Guide
- Realizing the American Dream
- Framework (Online Course)

Homebuyer education must be completed before closing. The above noted requirements are satisfied when at least one Borrower per household provides a certificate of completion. Minnesota Housing does not have a homebuyer education certificate expiration date policy.

3.07 Credit Score and Debt-to-Income (DTI) Ratios

The Step Up Loan Program credit score and debt-to-income (DTI) requirements vary based on underlying loan products. Refer to [Minnesota Housing's Credit and DTI Matrix](#), for credit score and DTI requirements by product types. In addition, Minnesota Housing's requirements for the use of non-traditional credit that impact DTI and reserve requirements must be satisfied.

Refer to the following product descriptions on Minnesota Housing's website for additional conventional product specific requirements:

- [Fannie Mae HFA Preferred™](#);
- [Fannie Mae HFA Preferred Risk Sharing™](#); and
- [Freddie Mac HFA AdvantageSM](#)

Minnesota Housing offers this chart and these product descriptions as a good faith assistance for Lenders. The Lenders are advised to fulfill their due diligence in adhering to all underlying product and **U.S. Bank Home Mortgage, HFA Division, requirements**, and not solely relying on the tools provided in this procedural manual.

See [All Regs](#) for additional, specific **U.S. Bank Home Mortgage, HFA Division, requirements**.

Table 1. How To Determine Which Borrower Credit Score to Use

Number of Scores	Guidance	Minimum Credit Score/Maximum Debt-to-Income Ratio (DTI)
3 scores	Use middle of scores	Refer to Minnesota Housing's Credit and DTI Matrix
2 scores	Use lower of the two scores	
1 score	Use available score	
Multiple Borrowers: all with credit scores	Use score from Borrower with lowest score to determine maximum DTI	
Multiple borrowers: at least one Borrower has a credit score and the other Borrower(s) does not have a credit score	Defer to underlying product guidelines	
Sole Borrower or Multiple Borrowers: No score	Defer to the underlying product guidelines	
Insufficient credit to support an AUS Approval or has erroneous/ inaccurate credit or disputed credit	Defer to underlying product guidelines	

3.08 Program Income Limits

The income used to qualify the Borrower may not exceed the Step Up program [income limits](#) posted on Minnesota Housing's website. Income is defined by and calculated according to credit underwriting guidelines (i.e., qualifying income) for the underlying loan product (FHA, RD, VA, Fannie Mae, or Freddie Mac).

3.09 Loans to Employees and Affiliated Parties

The Lender may make Minnesota Housing loans to their directors, officers, employees, or their families as well as to builders, realtors, or their families, and any other principal with whom the Lender does business. Minnesota Housing employees and their families are also eligible. The Borrower must meet all eligibility criteria for the program.

Chapter 4 - Property Eligibility

4.01 Eligible Properties

Properties eligible for a loan under the Step Up must be located in the State of Minnesota and may include any of the following housing types listed below. The Lender is advised that U.S. Bank and underlying eligible products may have more restrictive property eligibility requirements. Refer to [All Regs](#) for additional, specific **U.S. Bank Home Mortgage, HFA Division, requirements** and to [Fannie Mae HFA Preferred™](#), [Fannie Mae HFA Preferred Risk Sharing™](#), and [Freddie Mac HFA AdvantageSM](#) product descriptions on Minnesota Housing's website.

- A single-family detached residence
- A unit within an eligible Planned Unit Development ("PUD")
- A condominium unit eligible under **U.S. Bank Home Mortgage, HFA Division, additional requirements** as published in [All Regs](#)
- A duplex that meets the following requirements:
 - The Borrower(s) must occupy one unit of a duplex property
 - The duplex property must be a residence for at least five years before the date of the new mortgage, i.e. not New Construction or recently converted from non-residential use
- A manufactured home built to Federal Manufactured Home Construction Safety Standards, administered by HUD, that meet the following standards:
 - Must be eligible for purchase under **U.S. Bank Home Mortgage, HFA Division, requirements** as published in [All Regs](#)
 - Must be assessed as real estate for property tax purposes, and
 - Must meet the requirements of the underlying loan product and the applicable insurer/guarantor.
- A modular home built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing, subject to loan product guidelines and the approval of the mortgage insurer/guarantor.

4.02 Loan and Purchase Price Limits

The maximum purchase price for purchase transactions and the maximum loan amount for refinance transactions may not exceed the [house price limits](#) posted on Minnesota Housing's website.

4.03 New Construction Requirements

Newly constructed properties must meet the following requirements:

- The land must be zoned for residential housing

MINNESOTA HOUSING – STEP UP PROGRAM PROCEDURAL MANUAL
JUNE 30, 2017

- The land must not be annexed within the previous calendar year
- A Certificate of Occupancy must be issued for the property before loan closing
- The Borrower may not act as the General Contractor

Chapter 5 – Loan Eligibility

5.01 Eligible Loans

The Master Servicer purchases closed loans from the Lender under contract in Minnesota Housing's Mortgage Loan Programs. The Lender must warrant that the following criteria are met for each loan submitted for purchase. All eligible loans can be originated by participating Lenders under their Participation Agreement.

Minnesota Housing will purchase loans originated per industry standard guidelines under the Step Up program for:

- Purchase transactions
- Refinance transactions:
 - No cash out
 - Limited cash out

Eligible Government loan products:

- Federal Housing Administration (FHA), including:
 - FHA 203(k) Streamline
 - FHA Streamline Refinance
- Veterans Administration (VA), including:
 - VA Streamline Refinance (IRRRL – Interest Rate Reduction Refinance Loan)
- Rural Development (RD), including:
 - RD Streamline Refinance
 - RD Streamline Assist Refinance

Eligible Conventional loan products include:

- [Fannie Mae HFA Preferred™](#)
- [Fannie Mae HFA Preferred Risk Sharing™](#)
- [Freddie Mac HFA AdvantageSM](#)

Lenders are advised to refer to conventional product descriptions on the Minnesota Housing website for product requirements.

Loans purchased by Minnesota Housing must satisfy the following criteria:

- All local, state and federal laws, and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending, and wrongful discrimination in residential housing are met
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing's loan commitment system

5.02 Interest Rate/Amortization Requirements

Minnesota Housing requires that all loans:

- Have a fixed interest rate
- Are fully amortizing over the term of the loan
- Are payable on the first of each month in level monthly installments that include at least principal and interest.

The interest rates for Minnesota Housing loan programs are listed [here](#).

5.03 Mortgage Term

All loans must have a 15-year or 30-year term.

5.04 Private Mortgage Insurance Coverage Requirements

All loans requiring private mortgage insurance must have coverage at the levels prescribed by the underlying mortgage product guidelines.

5.05 Private Mortgage Insurance Companies – Minimum Requirements

Minimum requirements for private mortgage insurance companies must meet underlying loan product guidelines.

5.06 Settlement/Closing Costs

Settlement and closing costs, fees, or charges the Lender collects from any party in connection with any loan must:

- Comply with Minnesota law
- Meet all requirements of the insurer/guarantor
- Not exceed an amount deemed usual or reasonable for the type of transaction (e.g. FHA, VA, Conventional)

5.07 Gifts

All gifts received by the Borrower(s) for a Minnesota Housing loan must satisfy the requirements of the applicable underlying first mortgage loan product and the insurer/guarantor.

5.08 Non-Minnesota Housing Secondary Financing

Secondary financing offered by a city or county government, a non-profit, or a for-profit, including downpayment assistance, community seconds (including resale restrictions), or other forms of secondary financing used in conjunction with a Minnesota Housing loan, must comply with the following:

- Meet all requirements of the applicable first mortgage loan product and insurer/guarantor (i.e., FHA Secondary Financing, Fannie Mae Subordinate Financing, Freddie Mac Affordable Seconds)
- The Borrower may receive cash back at closing from secondary financing proceeds only when the cash back is a refund of the Borrower's own investment, as allowed by the first mortgage product
- The secondary financing does not reduce the Acquisition Cost (Start Up and MCC only)
- Minnesota Housing requires full disclosure of any and all secondary financing

For transactions using Minnesota Housing's Monthly Payment Loan:

- The Monthly Payment Loan must take 2nd position

5.09 Non-Complying Loans

Minnesota Housing or the Master Servicer has the right to take one or more of the following actions in the event a Lender submits a mortgage loan that does not, as determined by Minnesota Housing or the Master Servicer, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan
- If not already purchased, refuse to purchase the loan
- If already purchased, require the Lender to repurchase the loan for the purchase price
- Terminate, suspend, or otherwise limit the Lender's Participation Agreement with Minnesota Housing or the Master Servicer
- Preclude the Lender from future participation in Minnesota Housing programs

Chapter 6 – Downpayment and Closing Cost Loans

The Minnesota Housing downpayment and closing cost loan option available with Step Up is the Monthly Payment Loan.

6.01 Monthly Payment Loan Requirements

The Monthly Payment Loan provides assistance to pay for eligible expenses, including downpayment and customary buyer closing costs. The Monthly Payment Loan is the only Minnesota Housing downpayment and closing cost option available with Step Up. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan, however, they are not available with the premium service release premium (SRP) option
- Are available in increments of \$100 up to \$12,000
- Must occupy second lien position when combined with a non-Minnesota Housing Community Second Mortgage
- Have an interest rate equal to that of the first mortgage
- Are fully amortizing and are payable in level monthly payments over a 10-year loan term
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage
- Must be paid in full upon:
 - Sale of the property
 - Transfer of title to the property
 - Payment in full of the first mortgage at maturity
 - The first mortgage is declared due and payable whether through default or other event
- May not be assumed

6.02 Monthly Payment Loan Borrower Eligibility

The Borrower(s) must satisfy all Step Up eligibility requirements as well as the following additional requirements for the Monthly Payment Loan.

Income Limits. The Borrower(s) applying for a Step Up Loan with Monthly Payment Loan assistance must satisfy the [Monthly Payment Loan Income Limits](#) posted on Minnesota Housing's website.

Homebuyer Education. Homebuyer Education is required if all Borrowers are first-time homebuyers. (See section 3.06 for more details.)

Cash Investment. A minimum cash investment of the lesser of 1% of the purchase price or \$1,000, including prepaids, is required only for purchase loans. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan, or sweat equity contribution.

Asset Limit. The Monthly Payment Loan has no asset limit.

Cash to the Borrower at Closing

The Borrower(s) may receive cash back at closing only when all of the following criteria apply:

- The cash to the borrower at closing is a refund of dollars paid outside of closing and is reflected on the Closing Disclosure
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement
- The underlying first mortgage product and the insurer/guarantor allow the refund

6.03 Monthly Payment Loan Lender Warranties

In addition to the warranties stated in Section 1.07, the Lender warrants the following:

- The Borrower's cash investment is paid from Borrower's own funds
- The funds received by the Borrower are applied to the transaction and verified through the Closing Disclosure

6.04 Subordination Policy

Minnesota Housing permits the subordination or replacement of a Homeownership Assistance Fund (HAF) Loan, a Deferred Payment Loan (DPL), or a Monthly Payment Loan (MPL) only in cases where the Minnesota Housing first mortgage is refinanced to a Step Up Loan. The Borrower is not eligible for more than one Minnesota Housing downpayment assistance loan. For more details see the Minnesota Housing [Subordination Policy](#).

Chapter 7 – Commitment/Disbursement

See Minnesota Housing's website for:

- The [Rate Lock Guide](#)
- The [Loan Commitment System Process Guide](#)

Chapter 8 – Documentation Requirements

8.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- The loan must be closed and disbursed before requesting loan funding approval using Minnesota Housing's loan commitment system.
- The Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan.
- All loan documents must be industry standard and meet the requirements of the Master Servicer, the underlying loan product, and the insurer/guarantor, as applicable. (See the Minnesota Housing website for more details on required forms.)
- All loan documents must be complete, accurate, and reviewed by the Lender at the various and appropriate stages of the loan.
- Purchase and Non-Streamline Refinance loans underwritten utilizing industry standard automated underwriting systems require full documentation when verifying income and assets to confirm Minnesota Housing eligibility. (Streamline Refinance transactions should follow underlying product guidelines pertaining to income and asset documentation requirements. However, Minnesota Housing does require the lender to obtain the Borrower's income for Streamline Refinance transactions, even if the underlying product guidelines do not, and the income must meet program guidelines and be entered in HDS.)
- Minnesota Housing or industry-standard forms may not be altered in any way other than to add a company name and logo.
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has received an Individual Commitment of Funds from Minnesota Housing.
- All first mortgage assignments must run directly from the Lender to the Master Servicer.
- All second mortgage assignments must run directly from the Lender to the Minnesota Housing Finance Agency.
- The Lender must submit final documents to the Master Servicer within 120 days of the Master Servicer's loan purchase.
- Product specific requirements must be met: for Conventional HFA product requirements – refer to the [Fannie Mae HFA Preferred™](#), [Fannie Mae HFA Preferred Risk Sharing™](#), and [Freddie Mac HFA AdvantageSM](#) product descriptions on Minnesota Housing's website.

8.02 Minnesota Housing Documentation/Delivery Requirements

- The Master Servicer provides the Delivery Checklist form detailing specific documentation and delivery requirements. The Lender must fully execute and deliver documents within the designated timeframes.
- The Lender reviews any and all contracts in connection with the residence sale transaction to ensure total compliance with this Procedural Manual.
- Documentation not delivered to the Master Servicer within the specified time frames, may result, at Minnesota Housing's or the Master Servicer's discretion, in the Lender repurchasing the loan, or any other remedy as identified in this Procedural Manual.

Minnesota Housing or the Master Servicer, at their sole discretion, may extend the timeframes identified in the Delivery Checklist.

8.03 Records Retention

The Lender must retain any and all compliance documents (including compliance with Minnesota Housing program guidelines) as may be required by the Lender's regulatory authority, the requirements of the underlying loan product, and the requirements of the insurer/guarantor, as appropriate.

The loan product and insurer/guarantor minimum or alternative documentation requirements do not relieve the Lender from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing or loan audit.

Chapter 9 – Servicing

9.01 Servicing

Minnesota Housing may, at its discretion, subject to any contractual provisions between Minnesota Housing and the Master Servicer, change the Master Servicer.

9.02 Lender Servicing Responsibilities

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to Master Servicer purchase the Lender must collect and apply all Borrower loan payments for both the Step Up Loan and the Monthly Payment Loan, if applicable. Loan payments collected must include:

- The Step Up loan monthly principal and interest
- The Monthly Payment Loan monthly principal and interest, if applicable
- 1/12th of annual property tax
- The Mortgage insurance, if applicable
- Flood insurance, if applicable
- Hazard insurance (escrows)
- Assessments, if applicable

In addition, the Lender must complete the following servicing activities for both the Step Up Loan and, if applicable, the Monthly Payment Loan:

- Maintain payment history indicating:
 - The breakdown of principal, interest, and escrows
 - Any principal repayments
 - The remaining principal balance of loan
 - The collection of any past due payments

9.03 Hardship Policy

Minnesota Housing has in place a hardship policy for its Monthly Payment Loan that allows forgiveness either in part or in whole if the Borrower is experiencing severe financial hardships that prevent him or her from paying back the full indebtedness.

Appendix A: Definitions

TERM	DEFINITION
Co-Signer	A party that is obligated to repay the loan. A Co-Signer assumes only personal liability and has no ownership interest in the property.
Program Income Limit	See Section 3.08. Any of several different types of earned or unearned income claimed by the Borrower. Types of income include, but are not limited to: Base Pay, Variable Income, Income resulting from Self-Employment or a Business, Income from Assets, Government Transfer Payments, Insurance Benefits, etc.
Individual Commitment	A legal commitment of funds with specific terms and conditions for use by a Borrower(s) purchasing a property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
New Construction or Newly Constructed Residence	New Construction or a Newly Constructed Residence refers to a residence, which has either never been occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or bridge loan).
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and the household.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed as outlined in its entirety in Section 3.06 of this Procedural Manual.

Appendix B: Forms List

See www.mnhousing.gov for required Step Up forms.